

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 CIAE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03 SS-15

USIA-15 ACDA-19 IO-15 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

CEA-02 DRC-01 /200 W  
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P R 040749Z OCT 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8389

INFO AMEMBASSY DACCA

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USADB

E.O. 11652 ADS, DECLAS 12/31/73

TAGS: EAID, EFIN, BG

SUBJECT: PROPOSED ADB LOANS AND TECHNICAL ASSISTANCE GRANT  
FOR BANGLADESH WEST ZONE POWER PROJECT

FOR NAC AGENCIES

REF: MANILA 9652 DACCA 3737 AND 3902

SUMMARY: ADB MANAGEMENT PROPOSES TWO LOANS TOTALING  
\$10.45 MILLION EQUIVALENT TO PEOPLE'S REPUBLIC OF BANG-  
LADESH, OF WHICH \$1.2 MILLION WOULD BE FROM ORDINARY  
CAPITAL RESOURCES AND \$9.25 MILLION FROM SPECIAL FUNDS  
RESOURCES, TO FINANCE FOREX COST OF CONSTRUCTION OF  
40 MW GAS TURBINE POWER PLANT AT BHERAMARA IN WEST ZONE  
AND ASSOCIATED EQUIPMENT. ALSO PROPOSED IS TECHNICAL  
ASSISTANCE (TA) GRANT OF NOT EXCEEDING \$250,000 TO ASSIST  
THE BANGLADESH POWER DEVELOPMENT BOARD (BPDB) IN IMPROVE-  
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MENT OF MANAGEMENT, FINANCIAL AND ACCOUNTING SYSTEMS.

USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC R76-73 WITH ATTACHMENTS DESCRIBING PROPOSED LOANS AND GRANT POUCHED ADDRESSEES SEPT 24. BOARD CONSIDERATION SCHEDULED OCT 16.

2. ADB MANAGEMENT PROPOSING BLENDING OF LOANS OF \$1.2 MILLION FROM ORDINARY CAPITAL RESOURCES AND \$9.25 MILLION FROM SPECIAL FUNDS RESOURCES (TOTAL \$10.45 MILLION) TO PEOPLE'S REPUBLIC OF BANGLADESH. PROCEEDS WILL FINANCE FOREX COST OF 40 MW GAS TURBINE STATION TO BE LOCATED AT BHERAMARA IN WEST ZONE, OTHER RELATED EQUIPMENT REQUIRED FOR WEST ZONE POWER SYSTEM, AND CONSULTANT AND TRAINING SERVICES FOR PROJECT IMPLEMENTATION. ALSO PROPOSED IS TA GRANT TO ASSIST BPDB IN IMPROVEMENT OF MANAGEMENT, FINANCIAL AND ACCOUNTING SYSTEMS. PROPOSED TERMS ARE (A) 20-YEAR AMORTIZATION INCLUDING 4-YEAR GRACE PERIOD, 7-1/2 PERCENT INTEREST FOR ORDINARY CAPITAL LOAN AND (B) 40-YEAR AMORTIZATION INCLUDING 10-YEAR GRACE PERIOD, ONE PERCENT INTEREST FOR SPECIAL FUNDS LOAN. PEOPLE'S REPUBLIC OF BANGLADESH TO BE BORROWER AND BPDB EXECUTING AGENCY. GOVT INTENTION IS TO RELEND PROCEEDS OF LOANS TO BPDB AT 7-1/2 PERCENT INTEREST AND PROVIDE BPDB WITH REQUIRED LOCAL CURRENCY FUNDS WITH INTEREST-FREE LOAN.

3. BANGLADESH POWER SYSTEM IS DIVIDED INTO TWO SEPARATE NETWORKS DIVIDED BY GANGES-BRAHMAPUTRA RIVER SYSTEM. BETWEEN 1962-1970 MAXIMUM DEMAND FOR POWER GREW AT AVERAGE OF 16 PERCENT PER ANNUM, WHILE EXPANSION OF GENERATION FACILITIES INCREASED AT RATE OF 23 PERCENT PER ANNUM. HOWEVER, WHILE GROWTH IN DEMAND OF WEST ZONE EXCEEDED AVAILABLE FIRM CAPACITY, ADDITIONS TO EAST ZONE GENERATING CAPACITY INCREASED MORE THAN REQUIREMENTS. ENTIRE POWER SYSTEM WAS SERIOUSLY DISRUPTED DURING 1971 DISTURBANCES, WHICH LARGELY AFFECTED TRANSMISSION SYSTEM AND ISOLATED DIESEL STATIONS. REPAIR WORK, WITH FINANCIAL ASSISTANCE ESPECIALLY FROM CANADA AND UNITED STATES, IS QUITE ADVANCED, AND BY END 1973 PHYSICAL SYSTEM SHOULD BE RESTORED TO PREVIOUS STATUS.

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4. IN WEST ZONE, PRESENT PEAK DEMAND OF 45 MW CANNOT BE MET BY EXISTING FIRM CAPACITY OF 43 MW, WHILE IN EAST ZONE, WHICH HAS BULK OF INDUSTRIAL SYSTEM, FIRM GENERATING CAPACITY (380 MW) IS WELL IN EXCESS OF PRESENT DEMAND. STUDIES HAVE BEEN MADE ON FEASIBILITY OF INTERCONNECTING TWO ZONES. IN VIEW FORMIDABLE TECHNICAL PROBLEMS, TWO ZONES EXPECTED TO CONTINUE AS INDEPENDENT UNITS FOR SOME

TIME. MAXIMUM DEMAND IN WEST ZONE ESTIMATED TO INCREASE  
AT AVERAGE ANNUAL RATE OF 17 PERCENT FROM 1972/73 TO  
1980/81.

5. PROPOSED PROJECT IS ESSENTIAL COMPONENT OF POWER  
DEVELOPMENT PROGRAM IN COUNTRY'S DRAFT FIVE-YEAR PLAN  
(1973/74 TO 1977/78) AND IS URGENTLY REQUIRED TO MEET  
WEST ZONE FORECASTED LOAD GROWTH AND TO PERMIT ORDERLY  
GROWTH OF POWER SYSTEM THERE ON EFFICIENT AND RELIABLE  
BASIS. PROPOSED BANK PROJECT CONSISTS OF (A) GAS TURBINE  
GENERATING STATION TO BE CONSTRUCTED AT BHERAMARA NEAR  
INDIAN BORDER IN WESTERN BANGLADESH, CONSISTING OF TWO OR  
THREE UNITS TOTALING 40 MW OF SIMPLE CYCLE TYPE GAS TURBINE;  
(B) SPARE PARTS URGENTLY NEEDED FOR OVERHAUS OF EXISTING  
GAS TURBINE GENERATION UNITS LOCATED ATBOALPARA POWER  
STATION AT KHULNA NEAR SOUTHWEST COAST; (C) SUBSTATION AND  
COMMUNICATION EQUIPMENT REQUIRED FOR EFFECTIVE  
OPERATION OF PROJECT STATION ON WEST ZONE GRID; AND (D)  
CONSULTANT SERVICES FOR EFFECTIVE PROJECT IMPLEMENTATION  
AND TRAINING OF TECHNICAL STAFF FOR SUCCESSFUL OPERATION  
AND MAINTENANCE OF GENERATING STATIONS AND GRID IN WEST  
ZONE. BANK MISSION INDICATES THAT SIZE, TYPE AND  
LOCATION OF GAS TURBINE UNITS PROVIDE LEAST COST AND TECHN-  
ICALLY MOST APPROPRIATE SOLUTION TO ADDITIONAL GENERATION  
FACILITIES REQUIRED. BANK HAS BEEN GIVEN  
ASSURANCES THAT SATISFACTORY ARRANGEMENTS WILL BE MADE  
FOR ADEQUATE SUPPLY OF SUITABLE FUEL FOR GAS TURBINE  
INSTALLATION AND FOR REGULAR TRANSPORT OF FUEL TO BHERAMARA  
STATION.

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ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 CIAE-00 PM-07 H-03 INR-10

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CEA-02 DRC-01 /200 W

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P R 040749Z OCT 73  
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TO SECSTATE WASHDC PRIORITY 8390  
INFO AMEMAASSY DACCA

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6. TOTAL COST OF PROJECT ESTIMATED AT \$17.5 MILLION, OF WHICH FOREX COMPONENT PROPOSED FOR BANK FINANCING IS \$10.45 MILLION. LOCAL COSTS OF \$7.05 MILLION EQUIVALENT TO BE MET BY GVT. PROCEEDS OF \$1.2 MILLION LOAN FROM ORDINARY CAPITAL TO BE ALLOCATED FOR SUBSTATION AND COMMUNICATIONS EQUIPMENT AND SPARE PARTS FOR EXISTING GAS TURBINES, CONSULTANTS' SERVICES AND TRAINING; SPECIAL FUNDS PROCEEDS OF \$9.25 MILLION TO BE ALLOCATED FOR POWER STATION. BANK'S GUIDELINES ON PROCUREMENT PROCEDURES FOR GOODS AND CONSULTANT SERVICES WILL BE FOLLOWED (EXCEPT \$250,000 FOR PROCUREMENT OF SPARE PARTS FOR EXISTING GAS TURBINES WHICH MUST COME FROM ORIGINAL MANUFACTURER, FIAT OF ITALY). FOR GAS TURBINE STATION, CONTRACT EXPECTED TO BE AWARDED ON TURNKEY BASIS, IN VIEW OF LOCATION AND INTEGRATED NATURE OF INSTALLATION, AND BIDDERS WILL BE REQUIRED TO INCLUDE PROPOSAL FOR OPTIONAL PURCHASE OF ADDITIONAL GAS TURBINE GENERATING SET OF 15-20 MW CAPACITY IN CASE LOAD GROWTH SHOULD LATER JUSTIFY ADDITIONAL UNIT. FOREIGN CONSULTANTS WILL BE UTILIZED BY BPDB FOR PROJECT IMPLEMENTATION TO INCLUDE LIMITED OFFICIAL USE

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BID EVALUATION; GENERAL DESIGNS FOR SITE; MANAGEMENT OF CONSTRUCTION AND COMMISSIONING OF WORK; ASSISTANCE IN SPECIFYING SUBSTATION AND COMMUNICATIONS REQUIREMENTS; ASSISTANCE IN IMPROVING SYSTEM OPERATIONS; AND TECHNICAL TRAINING PROGRAM FOR WEST ZONE SYSTEM.

7. IN VIEW BANGLADESH'S VERY DIFFICULT ECONOMIC SITUATION, BANK MANAGEMENT CONSIDERS AVERAGE GRANT ELEMENT OF 64 PERCENT TO BE APPROPRIATE. IN THIS PROJECT, HOWEVER, PROCUREMENT CONSIDERATIONS AND INDIVISIBILITY OF MAJOR PROJECT COMPONENT (I.E., GAS TURBINE STATION) MEANS BLEND OF FUNDS WILL RESULT IN GRANT ELEMENT OF 74 PERCENT. TO MAINTAIN OVERALL GRANT ELEMENT OF 64 PERCENT, COMPENSATION MADE IN PROPOSED CHITTAGONG PORT PROJECT WHICH HAS GRANT ELEMENT OF ONLY 49 PERCENT. (SEE MANILA 10991).

8. BPDB--EXECUTING AGENCY FOR PROPOSED PROJECT -- IS STATUTORY CORPORATE BODY ESTABLISHED IN 1972 (AS SUCCESSOR TO POWER WING OF FORMER EAST PAKISTAN WATER AND POWER

DEVELOPMENT AUTHORITY) AND FUNCTIONS UNDER CLOSE SUPERVISION OF MINISTRY OF POWER, BLOOD CONTROL AND WATER RESOURCES. FINANCIAL POSITION OF BPDB (AND PREDECESSOR), WHICH WAS MARGINAL PRIOR TO 1971, HAS BEEN WEAKENED CONSIDERABLY AS RESULT OF DEVALUATION, DOMESTIC INFLATION, AND RISING DEPRECIATION AND INTEREST. BPDB ALSO SUFFERS FROM NUMBER OF OPERATING DEFICIENCIES, WHICH WERE INTENSIFIED BY 1971 DISTURBANCES. BANK PROPOSES TO PROVIDE TA CONSISTING OF TEAM OF CONSULTANTS SPECIALIZED IN ELECTRIC UTILITY ACCOUNTING AND FINANCE TO REVIEW AND INITIATE IMPLEMENTATION OF MEASURES TO IMPROVE ACCOUNTING SYSTEM; REVALUE ASSETS AND RECONSTRUCT CURRENT ACCOUNTS OF BPDB; EXAMINE SPECIAL ASPECTS OF THEIR SYSTEMS AND PROCEDURES; AND PREPARE FINANCIAL PROJECTIONS FOR COMING DECADE. TA EXPECTED TO PROVIDE SOUND BASIS FOR CONSULTATIONS BETWEEN BANK, BPDB AND GOVT REGARDING TARIFF ADJUSTMENTS AND OTHER FINANCIAL MEASURES THAT MAY BE NEEDED TO IMPROVE FUTURE FINANCIAL OPERATIONS OF BPDB. UNDER TA, BANK WOULD ALSO PROVIDE EXPERT EXPERIENCED IN OPERATION AND MANAGEMENT OF ELECTRIC UTILITIES TO ASSIST BPDB IN INITIATING AND IMPLEMENTING NECESSARY ORGANIZATIONAL AND MANAGEMENT REFORMS. TOTAL COST OF TA WOULD BE \$250,000 AND IS LIMITED OFFICIAL USE

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PROPOSED TO BE MADE AVAILABLE ON GRANT BASIS.

9. PROPOSED PROJECT IS URGENTLY NEEDED TO HELP WEST ZONE POWER SYSTEM MEET PROJECTED LOAD GROWTH AND PROVIDE INDUSTRIES IN WEST ZONE (WHICH ACCOUNT FOR MORE THAN TWO-THIRDS OF LOAD) WITH RELIABLE AND ADEQUATE SUPPLY OF ENERGY. ECONOMIC RATE OF RETURN ESTIMATED AT 12 PERCENT. PROJECT WILL ALSO IMPROVE SYSTEM'S RELIABILITY AND PROVIDE GREATER OPERATING FLEXIBILITY. IT HAS IMPORTANT TECHNICAL BENEFITS FOR PROJECTED AND LONGER TERM GROWTH OF AN EFFICIENT GRID SYSTEM IN WEST ZONE. ADVISORY TA WILL SERVE TO STRENGTHEN INSTITUTIONAL AND FINANCIAL ASPECTS OF BPDB, AND GOVT HAS ASSURED BANK MISSION THAT FINDINGS AND RECOMMENDATIONS OF STUDY BY FINANCIAL CONSULTANTS WOULD BE EXAMINED IN CONSULTATION WITH BANK AND THAT APPROPRIATE MEASURES WOULD BE CONSIDERED, INCLUDING A RATIONALIZATION OF TARIFF STRUCTURE, TO ENABLE BPDB TO OPERATE ON SOUND FINANCIAL BASIS. USADB HAS SOME RESERVATIONS RE WEAK FINANCIAL STRUCTURE AND FINANCIAL FORECASTS OF EXECUTING AGENCY AS WE DID ON CHITTAGONG PORT PROJECT (MANILA 10991).HOWEVER, BANK HAS OBTAINED STRONGER ASSURANCES THAT CORRECTIVE MEASURES WILL BE TAKEN. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

10. REQUEST DACCA'S COMMENTS FOR NAC AGENCIES, INFO

USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.  
SULLIVAN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 04 OCT 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Executive Order:** N/A  
**Errors:** N/A  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Previous Classification:** LIMITED OFFICIAL USE  
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**Reference:** MANILA 9652 DACCA 3737 AND 3902  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
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**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03-Dec-2001 by cunninfx>; APPROVED <21-Dec-2001 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PROPOSED ADB LOANS AND TECHNICAL ASSISTANCE GRANT FOR BANGLADESH WEST ZONE POWER PROJECT  
**TAGS:** EAID, EFIN, BG  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005